

Uncertain Prospects of Transformation: The Middle East and North Africa

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Introduction

In spite of a lively public debate, political reforms in the 16 countries in the Middle East and North Africa (MENA) have been very limited and controlled; the region remains characterized by authoritarian systems. Market reforms have been far more encouraging, but success competitive market economies have yet to emerge.

Turkey remains the only success story of the region with its present reform course heavily influenced by the EU accession perspective. Lebanon developed a consensus democracy based on sectarian power-sharing, but after the end of civil war Syrian influence on Lebanese politics became dominant. Among the autocratic systems two ideal types can be distinguished. The presidential republics—Algeria, Egypt, Iraq, Sudan, Syria, Tunisia—created authoritarian one-party systems that aimed to transform the existing social order by dispossessing old elites, mobilizing broad swathes of the population and tying societal groups into an authoritarian, corporatist system. The traditional monarchies—Bahrain, Jordan, Morocco, Saudi Arabia and the UAE—have combined the familiar inheritance of political power with a conservative social rhetoric.

Regardless of the type of political system, in all the countries in the region (with the exception of Lebanon) the state played a leading role in economic development. They attempted to catch up industrially by erecting protective tariffs and rapidly expanding the public sector. This strategy of import-substitution industrialization led to crises everywhere, as the broad state sector was neither competitive nor profitable, produced massive misallocations of resources and increasingly consumed national reserves of capital.

These structural problems were hidden by the oil boom of the 1970s, from which all countries in the region profited, either directly as oil exporters or indirectly through regional transfers and remittances from migrant workers. The flow of external rent incomes from oil exports into government treasuries was supplemented during the Cold War by financial transfers to individual states in this geopolitically important region. The collapse of oil prices in the mid-1980s and the end of the East-West confrontation reduced the level of these financial flows considerably and forced almost all states in the region to undertake market reforms.

This report provides an overview on the state, trajectory and management of the transformation processes in the 16 area countries. It is based on the results of the Bertelsmann Transformation Index 2006 (BTI) and the underlying country assessments which analyze each individual country in detail.

Democratic Development

Securing the state's monopoly on the use of force and ensuring administrative effectiveness as well as a minimal level of secularization of the legislative and judicial process are preconditions for implementing political and economic reforms. The state monopoly on the use of force is comparatively well established in the majority of regional countries; the major exceptions being Iraq, Sudan, Lebanon and Yemen.

In Iraq, the demise of the regime of Saddam Hussein has dramatically weakened the ability of the state to perform even the most basic function of statehood, i.e. the supply of security. Sudan's problems of state identity have worsened to the point where separation for the south is now officially an option. In Lebanon, the presence of Syrian troops in the country until their withdrawal in April 2005 seriously compromised the monopoly of force of the Lebanese security forces and the Shi'i Hizbullah militia controls an autonomous fiefdom in the South and the Beka'a valley with only limited presence of the central state. In parts of Yemen, armed tribal forces keep resisting what they perceive as the state's encroachment on their autonomy.

Discrimination in public life against ethnic, religious or confessional minorities is the rule rather than the exception, sometimes even involving the forced withdrawal of citizenship. In the oil-rich monarchies of the Gulf region millions of expatriate laborers cannot easily qualify for citizenship and enjoy only sharply limited rights and freedoms.

Although political process is largely secularized, there is no complete separation of state and religion throughout the region. Islam is the state religion (except confessional Lebanon and secular Turkey) and many Middle Eastern constitutions define the Islamic law (*sharia*) as one source or even the major source of legislation. In most countries, matters of personal status law, such as divorce or inheritance, are tried according to religious law, sometimes in special religious courts. Morocco has enacted a reform of Personal Status Law in February 2004 which has the potential to advance Women's rights, but implementation on the social level remains an open question.

Table 1: Political Regimes in the Middle East and North Africa Region

	Defect democracies	Strongly defect democracies	Moderate autocracies	Autocracies	Transitional regime
Republics	Turkey	Lebanon	Egypt Algeria Yemen	Iran Libya Sudan Syria Tunisia	Iraq

Monarchies			Bahrain	Saudi Arabia	
			Jordan	UAE	
			Morocco		

Although general elections take place regularly in almost all these states, democratic change of the executive is not possible. Freedom of assembly and freedom of expression are tolerated only within narrow limits. Separation of powers and judicial independence are not sufficiently implemented in most countries in the region with the executive dominating the legislature and judiciary.

The exercise of political influence by societal actors often takes place outside of formal political participation, through client and family networks. With the important exception of some Islamist movements parties usually have shallow roots in society and do not aggregate broad sections of society; instead, they serve the pursuit of individual and collective particular interests. Interest groups such as trade unions and the professional associations are tied into an authoritarian-corporatist system.

The regional exception is Turkey, where free and fair parliamentary elections take place. However, the Turkish military has defined its own role in the past as the guardian of Kemalism, although its political influence has been weakened in recent years. Turkey has made significant progress in the realm of freedoms by increasing press freedom, lifting restrictions on the right of assembly and introducing limited cultural rights for minorities.

In the presidential republics elections are only carried out under the control of the state apparatus, which itself is controlled by the ruling president and his allies in the security services. The apparatus guarantees victory for the ruling party by providing financial and media resources, intimidating the opposition and directly manipulating the elections. In monarchies such as Bahrain, Jordan and Morocco, limited electoral competition has developed, which is subject to royal manipulation and control. In Saudi Arabia and UAE there are no elections at the national level; political decision-making is the prerogative of the ruling families. In Lebanon, parliamentary elections are manipulated through gerrymandering and external influence on the composition of candidate lists. A striking example of Syrian intervention in Lebanese politics was Parliament's decision in September 2004—ignoring the provisions of Lebanon's constitution—to extend the Syrian backed president's term in office.

The reformist government in Iran was limited by non-democratic veto institutions, such as the judiciary or the Council of Guardians. This deadlock paved the way for the conservatives to regain control of parliament in the heavily rigged elections of February 2004. In January 2005, Iraqis elected a transitional assembly in fairly free elections; partly distorted because in several areas voters were intimidated by insurgents or polling stations failed to open at all.

Economic Development

Market reforms entered the agenda of the region later than in other parts of the world. Most countries succeeded in macroeconomic stabilization by controlling inflation, balancing budgets and reducing debt. More complex structural reform measures however, such as privatizing state-owned enterprises, extending the rule of law and creating market systems of regulation, proceeded only slowly. Privatization of mostly unprofitable enterprises from the state sector took place very slowly in all countries and was characterized by corrupt insider trading resulting in crony capitalist structures. With some notable exceptions (Turkey, Lebanon, and the Gulf

Cooperation Council member states) the private sector must be considered rather weak in international comparison; the inefficient and overstaffed public sector remains large.

(Click [here](#) to view Table 2: Development Indicators in the Middle East and North Africa Region.)

Private property is formally guaranteed, but there are nonetheless varying levels of clientelistic interventions by the bureaucracy and judicial clarification of property questions is hindered by the lumbering and corrupt court systems. The region's banking sector and capital markets are generally underdeveloped, with the important exceptions of Lebanon and the Gulf monarchies. All countries in the region pursue a stability-oriented currency policy aimed at reducing inflation; steps towards full convertibility have been undertaken. However, Central Banks are generally not independent, although the degree of political interference varies. Liberalization of external trade has made great progress in many countries, yet tariff barriers are high in certain sectors and non-tariff trade restrictions as well as in-transparent import license procedures and bureaucratic red tape remain in place.

Turkey has a reasonably developed market economy whose institutional and regulatory framework was strengthened and state interference reduced. The IMF stabilization program put in force in April in 2001 aimed at enhancing the transparency of economic management, fiscal and monetary policies and managed to bring down inflation to a historic low in the first half of 2004.

In the Gulf monarchies (Bahrain, Saudi Arabia and UAE) market competition based on liberal trade regimes and advanced financial systems is comparatively developed, but still suffers from weak regulation and informal inequalities. The private sector is very strong, prices are mostly free, trade restrictions are limited, currencies are convertible and profits can be repatriated. However, informal monopolies and oligopolies are engrained, and administrative connections of established players can result in an uneven playing field.

A comparatively consequent course of economic reform has been pursued in resource-poor Jordan, Morocco and Tunisia as a part of their IMF restructuring programs. The economies have been substantially deregulated including trade liberalization, exchange rate reform and financial sector liberalization. A more cautious policy has been adopted in Egypt, where positive examples of privatization measures can be found in the telecommunication and tourism sector. Lebanon is suffering from macroeconomic imbalances, an inefficient bureaucracy and a lack of transparency in legislation as well as corruption.

Algeria, Sudan and Yemen were also compelled by looming default to undertake an IMF-directed approach to reform. The structural reforms made only minimal progress in Algeria, as a result of widespread resistance in the bureaucracy and the unions coupled with rising oil revenues. In Sudan and Yemen, the extent of poverty and underdevelopment, as well as the limited effective reach of state institutions, rendered the reform's successes relatively limited.

Iran, Libya and Syria have only taken sporadic steps toward economic liberalization in external trade and the banking sector. In these countries, the economies remains highly regulated and isolated from international markets. In Libya, private enterprise has spread into an increasing number of sectors and in 2003-4 the revolutionary leadership took numerous decisions aimed at promoting market structures and competition. In Syria, the public sector remains the main source of public revenues and the primary investor and economic stimulator, although there have been incremental improvements in the institutional framework for the market, notably the opening of private banks.

Within the region, there are substantial differences in the development of social security systems. A well-developed system of social security, supplemented by private and tribal networks, exists in the Gulf monarchies (Bahrain, Saudi Arabia and UAE) and Libya. In most other states in the

region, by contrast, the welfare system shows shortcomings in both its regional breadth and its depth among specific social strata.

Management

Steering Capability

Successful transformation management requires the setting of strategic priorities, the capability to implement decisions and the flexibility to adapt to a changing environment among the relevant actors. The primary goal of the elites in the region is ensuring the survival of the regime and adapting its institutions to a rapidly changing environment. Processes of political and economic reform are based on this premise, and subordinate to it in case of conflict.

The notable exception to this rule is Turkey, which can already look back on impressive achievements in transformation. The goal of EU accession implies both unifying and intensifying the political and economic threads of the country's transformation efforts, although some of the specific elements of the overall goal remain contentious.

The transformation to democracy is rhetorically espoused in most countries, but practical implementation is expected over the long term, at best. Political opening processes pursued in most of the region's autocracies may well aim at allowing for a higher level of pluralism and participation, enhancing the rule of law, and strengthening accountability and transparency—but are strictly controlled and regulated in such a way that the regimes retain their sources of power. The goal of a more far-reaching democratic transformation is, in contrast, mostly favored by politically marginal civil society groups and only occasionally finds its way into the consideration of ruling elites.

On the economic plane, fiscal and macroeconomic reforms were implemented quickly and relatively successfully. Structural and institutional reforms that would imply reorganization of the power relationships within society—such as privatizing state enterprises, extending the rule of law, or reforming regulatory systems—make limited progress. Without parallel institutional reforms and the creation of effective oversight of market competition, the economic liberalization pursued in the region enables corrupt officials and well-connected business people numerous opportunities for enrichment and advantage through in-transparent privatization and licensing procedures.

Governments by and large do have the capacity to carry out measures in a quite effective manner provided regime survival is secured and crucial coalition partners are not hurt. Although economic reforms are being tackled, this often happens in a haphazard fashion and with insufficient follow-up.

Resource Efficiency

Implementing reforms depends crucially on the relevant actors' capabilities to use their available resources effectively. Generally, resource efficiency is lacking in the region owing to bloated and inefficient bureaucracies coupled with waste and endemic corruption. Power is usually concentrated in the executive branch, and checks-and-balances and horizontal accountability are weak. Because stability in many countries rests at least partially on patrimonial and clientelistic networks, misallocations of economic resources are inherent to the system. The informal sector makes up a significant share of GDP in all of the states in the region.

Traditionally, administrative efficiency has been sacrificed to political criteria producing bloated bureaucracies characterized by clientelism and corruption. Competitive recruitment procedures are underdeveloped; recruiting employees for public service is usually less a matter of fitness for

the position than of clientelistic criteria. The guarantee of public jobs for university graduates in many states has produced a chronically overstaffed and under-qualified administration.

Steps to improve the effectiveness and accountability of public institutions have been implemented in some countries. Turkey has adopted the Public Financial Management and Control Law in December 2003, which aims at enhancing accountability within public finance management through the elimination of extra-budgetary funds. Bahrain has undertaken genuine steps towards more transparency in tender processes and the financial auditing of ministries and state institutions, including the introduction of general exams for all government jobs. Corruption remains endemic in most countries of the region. While it receives growing attention in well-publicized campaigns, these tend to be quite selective lest endanger the system stability.

Public expenditure is usually managed without real accountability, budgeting procedures are intransparent and parliamentary supervision is quite limited. Substantial amounts of state income are often administered in special budgets or by parallel institutions. Auditing is often either ineffective or subject to manipulation. Public debt is very high in some countries, and diverts funds that are sorely needed for investment.

Consensus Building

A successful reform process must be based on a broad consensus of relevant social actors marginalizing non-democratic veto-actors. In most countries major political forces agree on the need for economic and administrative reform, but not necessarily on its extent. Reformers within the ruling elite tend to be technocrats who prioritize economic reform and development over popular participation and face resistance from the committed old guard and the security establishment.

In Turkey, civilian control over the military has been strengthened, but the latter retained considerable influence through informal channels. Auditing and parliamentary control over the military budget was established, military representatives have been removed from civilian boards, and, in August 2004, for the first time a civilian was chosen as secretary-general of the National Security Council. In Algeria, the grip of the military on political institutions was significantly reduced. For the first time the military leadership refrained from putting forward its own candidate in the Presidential elections of 2004.

In Sudan, the peace process has built a provisional consensus which includes autonomous, secular government in the south and a referendum after six years. The Lebanese political elite is deeply split between the allies of Syria favoring the status-quo, while the opposition boosted through the assassination of former PM al-Hariri and the subsequent withdrawal of Syria aims at redefining the post-civil war consensus. Conservative and reformist leaders in Iran have finally come to consensus on the need to preserve the system of the Islamic republic. The level of openness towards economic reform varies among sub-factions and ranges from advocates of a careful liberalization to those wishing to preserve the state-run economy.

The main opposition in most countries of the region is formed by movements that draw on a politicized conception of Islam. Many Islamist groups are suspected of an ambivalent or instrumental attitude toward Western-style democracy especially in regard to the freedom of the individual and the rights of minorities. Incorporating the Islamist opposition into the political process has only been achieved partly and temporarily, and only in some countries, particularly in Bahrain, Jordan, Lebanon, Morocco, and Yemen. In contrast, the potentially popular Islamist movements in Egypt, Syria or Tunisia are officially banned.

At the micro level in society in most states of the region, primordial, tribal and clientelistic networks are important aspects of individual loyalty and cultural interaction. In strongly stratified

countries such as Yemen, national solidarity among different social elements can only be described as minimal. By and large, the governments have succeeded in containing or even narrowing cleavages between social groups as possible source of tensions. In contrast, Syria experienced major unrest in the Kurdish populated areas of eastern Syria in 2004, in part encouraged by the autonomy enjoyed by Iraqi Kurds and the fraying of the regime's alliances with Iraq Kurdish parties that had long enabled it to demobilize Syrian Kurds. The Yemeni government has become a party in violent tribal clashes, like in the case of rebellion of Husain Badr ad-Din al-Huthi in the Northern governorate of Sa'dah. In Iraq, the aftermath of the war has further strengthened ethnic and religious-confessional identities.

Participation of civil society in political decision-making is generally marginal, the state formulated and implements its choices autonomously. Decision-making is perceived less as a struggle of antagonistic interests, but rather a process to establish consensus.

In a number of countries, the government promotes charitable work, and associational movements, as long as they remain aloof from politics and concentrate on social issues, e.g. NGOs fighting poverty and advocating gender equality have been supported. Accordingly, civil society actors are either integrated in the political process in a subordinate role where they serve to legitimate the regime's interests and policies or are excluded when they are critical of the regime and the latter sees no possibility of softly incorporating their perceptions and interests.

International Cooperation

In the wake of 9/11 and the war on Iraq the international environment, in which regional actors operate, has changed significantly. On the one hand, the United States have announced a virulent campaign against militant Islamist groups which increased the pressure on regional governments to prove their commitment to establish itself as a reliable partner in the anti-terror coalition. On the other hand, the U.S. has vowed to support reform processes in its "Broader Middle East and North Africa Initiative" (later renamed "Partnership for Progress and a Common Future") which was adopted by the G-8 at its Sea Island summit in June 2004.

Despite the considerable religious and cultural homogeneity of the Middle East region, regional institutions are generally ineffective and do not offer significant incentives for political and market reforms. On the sub-regional level, the Gulf Cooperation Council (Bahrain, Saudi Arabia and the other Gulf monarchies) has been able to achieve a certain degree of integration, based on the members' comparable political and economic structures.

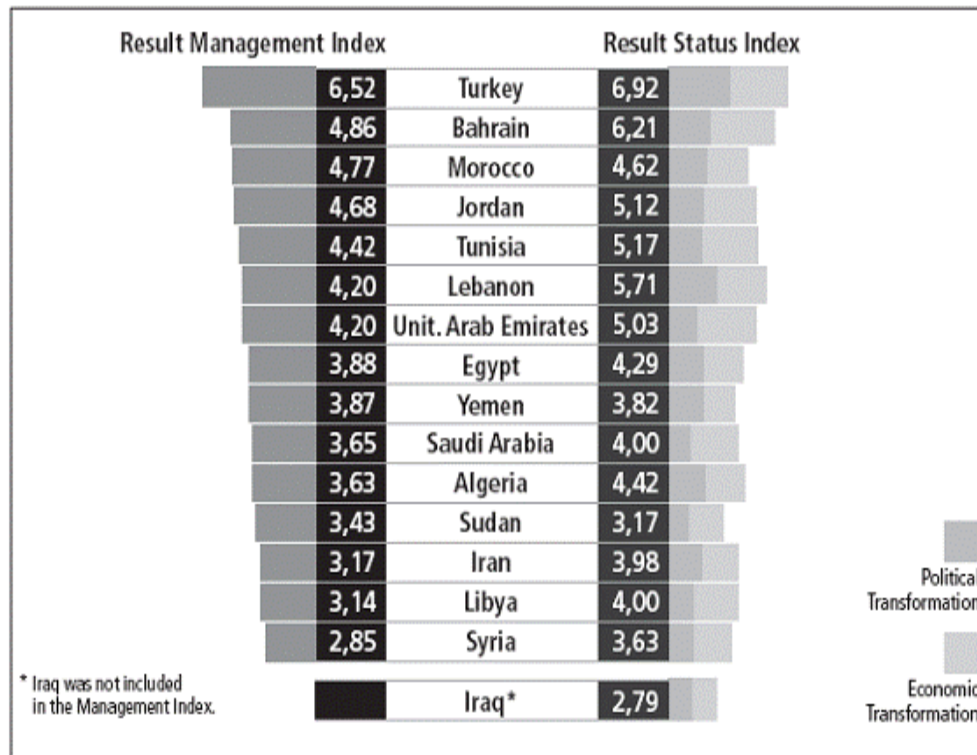
The EU has established itself over the last decades as a major actor supporting transformations processes in much of the region, especially the Mediterranean basin. As part of the EU accession process, Turkey has pledged to make far-reaching reforms. Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia have signed association agreements with the European Union which provide for free trade in manufactures after a transition period. Negotiations between the GCC and the EU on a free trade agreement are underway. Morocco, Jordan and Bahrain signed free trade agreements with the United States and a number of other countries are currently in the negotiating process.

Most states in the region are prepared for cooperation with international actors in support of economic reform. Cooperation with external donors (IMF, World Bank, European Union) plays an important role in the domestic legitimacy and financial cushioning of economic liberalization. All states that have committed themselves to a process of economic reform, the conditionality on credits from the IMF and the World Bank determined the course of reform and were used by the governments to justify the necessity of reforms to a broad front of opponents.

Conclusion

Mounting domestic problems combining with the changed international environment have convinced leaders in the MENA region that reforms are inevitable. Few see a viable alternative to deregulating the economy to prepare it for the challenge of global competition. Accordingly, economic reform at a slow pace has been continuing. However, there is a growing consensus that the introduction of selective and carefully chosen reform steps is no longer sufficient and that successfully addressing the region's problems would require a comprehensive approach, including administrative and political reform.

Results of the Bertelsmann Transformation Index 2006 for the Middle East and North Africa



The decoupling of political from economic reforms means structural reforms endanger state control in several sensitive areas. Strengthening the instruments of the rule of law would significantly limit the state's power to intervene in society. Privatization of the public sector according to market principles would substantially limit state patronage power and strengthen private actors' negotiating power. Selective economic liberalization enables a reconstruction of state control over the distribution of resources to clientelistic networks in society. Direct state control has been replaced with a symbiotic relationship between the bureaucracy and a crony bourgeoisie.

Political reform has returned to the agenda since the late 1990s, but political openings remain however carefully controlled, the goal being the reconstruction of the authoritarian system rather than their transformation. The 1980s saw a number of attempts at controlled political opening (Egypt, Jordan, Tunisia), which—although based on a rather heterogeneous logic—reflected falling oil revenues and the need to secure popular support for economic stabilization measures. This period culminated in the Algerian opening which prompted the military to intervene to prevent the electoral victory of the Islamist opposition in 1992 plunging the country into civil war and thus setting the stage for the general contraction of political space in the 1990s.

In a changed international environment new attempts at political reform are now spearheaded by some of the smaller GCC monarchies, such as Bahrain. Regimes like Syria and Saudi Arabia which both have been at the more authoritarian end of Middle Eastern political systems in the past have allowed for a modest awakening of civil society and toyed with the idea of increased participation. Nonetheless, well publicized reform measures are quite frequently contradicted by the introduction of new, less visible restrictions. A good example is the recent electoral reform in Egypt where competitive Presidential elections have been formally introduced, but conditions for candidates are so restrictive that in practice only the incumbent of the ruling party qualifies as a serious contender.

Nonetheless, reform has emerged as a key catchword across the region that no government can afford to ignore. The intensive debate on reform in the Middle East evolving in the last couple of years has put the issue on the regional agenda for some time to come; being promoted in particular by influential pan-Arab media such as the widely-watched television channel al-Jazeera. Boosted by the events of 9/11 the process of acknowledging the need for structural reforms and defining their scope in the political, economic and social dimensions has been manifested, for example, in the publication of the Arab Human Development Reports, the Sana'a and Alexandria civil society meetings and the Tunis declaration of the Arab League. The entrenchment of reform issues on the rhetorical level is an important first step, but how this will translate into tangible progress on the ground remains to be seen.

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